

DEPARTMENT OF TRANSPORTATION**AUDITS AND INVESTIGATIONS**

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June 18, 2008

Ronald L. DeCarli, Executive Director
1150 Osos Street, Suite 202
San Luis Obispo, CA 93401

Dear Mr. DeCarli:

Re: San Luis Obispo Council of Governments
Audit of Indirect Cost Allocation Plan for FY 2007/08
File No: P1190-0656

We have audited the San Luis Obispo Council of Governments' (SLOCOG) Indirect Cost Allocation Plan (ICAP) for the fiscal year ended June 30, 2008 to determine whether the ICAP is presented in accordance with Title 2, Part 225 of the Code of Federal Regulations ((2 CFR 225) previously the Office of Management and Budget (OMB) Circular A-87), the Department of Transportation's Local Programs Procedures (LPP) 04-10 and 49 CFR 18. SLOCOG management is responsible for the fair presentation of the ICAP. SLOCOG proposed an indirect cost rate of 51.99% of total direct salaries and wages (excluding paid time off), plus fringe benefits.

Our audit was conducted in accordance with the Standards for Performance Audits set forth in the *Government Auditing Standards* issued by the Comptroller General of the United States of America. The audit was less in scope than an audit performed for the purpose of expressing an opinion on the financial statements of the SLOCOG. Therefore, we did not audit and are not expressing an opinion on SLOCOG's financial statements.

The standards require that we plan and perform the audit to obtain reasonable assurance about whether the data and records reviewed are free of material misstatement, as well as material noncompliance with fiscal provisions relative to the ICAP. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the data and records reviewed. An audit also includes assessing the accounting principles used and significant estimates made by SLOCOG, as well as evaluating the overall presentation.

The accompanying ICAP was prepared on a basis of accounting practices prescribed in 2 CFR 225 and the Department of Transportation's (Department) LPP 04-10, and is not intended to present the results of operations of SLOCOG in conformity with generally accepted accounting principles.

The scope of the audit was limited to select financial and compliance activities. The audit consisted of a recalculation of the ICAP, a comparison of the ICAP to single audit report for the fiscal year ended June 30, 2006, and inquiries of SLOCOG personnel. The audit also included tests of individual accounts to the general ledger and supporting documentation to assess allowability, allocability and reasonableness of costs based on a risk assessment and an assessment of the internal control system as related to the ICAP as of September 13, 2007. Financial management system changes subsequent to this date were not tested and, accordingly, our conclusion does not pertain to changes arising after this date. In addition, our audit included a limited review of the Overall Work Program (OWP). We believe that our audit provides a reasonable basis for our conclusion.

Because of inherent limitations in any financial management system, misstatements due to error or fraud may occur and not be detected. Also, projections of any evaluation of the financial management system to future periods are subject to the risk that the financial management system may become inadequate because of changes in conditions, or that the degree of compliance with the policies and procedures may deteriorate.

Our findings and recommendations take into consideration SLOCOG's response dated November 2, 2007 to our October 24, 2007 draft findings and additional electronic correspondence received on November 3, 2007, and telephone conversations with SLOCOG staff. Our findings and recommendations, a summary of SLOCOG's response and our analysis of the response are detailed below. See Attachment I for a copy of SLOCOG's response.

AUDIT RESULTS

Based on audit work performed, SLOCOG's ICAP for the fiscal year ended June 30, 2008 is presented in accordance with 2 CFR 225 and LPP 04-10. The approved indirect cost rate is 51.99% of total direct salaries and wages (excluding paid time off), plus fringe benefits. The approval is based on the understanding that a carry-forward provision applies and no adjustment will be made to previously approved rates.

Audit Findings

Finding 1

SLOCOG does not segregate unallowable indirect costs from allowable indirect costs. We identified three instances where unallowable costs were included in the same accounts as other allowable costs. The specific instances and the relevant citations are listed below:

- a. Membership fee for an organization substantially engaged in lobbying (CALCOG) is unallowed per 2 CFR 225, Appendix B, #28d;
- b. Coffee for office meetings is an unallowable good for personal use of the governmental unit's employees per 2 CFR 225, Appendix B, #20. Additionally, the cost of meals in connection with meetings is allowable only if the primary purpose of the meeting is the dissemination of technical information, per 2 CFR 225, Appendix B, #27.;
- c. Stipends for Board members are unallowable governmental expenses per 2 CFR 225, Appendix B, #19(a)(2). Additionally, any staff costs incurred in support of Board Administration, e.g. preparation of agendas, meeting minutes, etc., are also unallowable.

Title 49 of the Code of Federal Regulations (49 CFR), Part 18.20(b)(1) requires the accurate, current and complete disclosure of financial results of activities. Although we do note that costs associated with (a) and (c) above were excluded from the indirect cost pool, they were not differentiated from other indirect costs in the accounting system. Including unallowable costs in the same accounts as other allowable costs increases the risk of including unallowable costs in the indirect pool and inaccurate reporting, and may improperly inflate the indirect cost rate.

Recommendation

We recommend that SLOCOG establish procedures that will ensure unallowable costs are segregated from other allowable costs and to ensure that unallowed costs are excluded from the indirect pool.

SLOCOG's Response

SLOCOG created a separate work element for all unallowed costs to assure unallowable costs are segregated from allowable costs and excluded from the indirect pool. The SLOCOG Accountant posted journal entries for items (a) and (c) above, transferring the costs to the newly created work element.

In a separate electronic mail, SLOCOG staff clarified that since the amount identified in (b) above was deemed immaterial (\$20.49), no adjustment was made, but in the future such costs will be charged to the new work element code.

Analysis of Response

SLOCOG concurs with the finding and recommendation.

Finding 2

We found that SLOCOG included direct project costs in the indirect pool. The specific instances are listed below:

- a. Accounting services costs directly attributable to the Transportation Development Act (TDA) administration program were budgeted in the indirect pool.
- b. Costs of office space, janitorial services and computer supplies directly attributable to the Rideshare program were budgeted in the indirect pool.
- c. A wireless router purchased specifically for the Rideshare program was coded as indirect.

2 CFR 225, Appendix A, section E.1 states that direct costs are those that can be identified specifically with a particular final cost objective. Appendix E, section A.1 indicates that after direct costs have been determined and assigned directly to Federal awards and other activities as appropriate, indirect costs are those remaining to be allocated to benefited cost objectives. Including direct costs in the indirect cost pool will improperly inflate the indirect cost rate.

Recommendation

We recommend that SLOCOG recalculate its 2008 ICAP so that direct project costs are excluded from the indirect cost pool. We further recommend that SLOCOG establish procedures that will ensure direct costs are segregated from indirect costs and to ensure that direct costs are excluded from the indirect pool.

SLOCOG's Response

SLOCOG amended its Overall Work Program (OWP) and excluded the above direct project costs from the indirect cost pool. Direct costs for TDA administration have been and will be identified by the County Auditor/Controller's Office. The SLOCOG's Accountant has coded Rideshare expenses to the proper work element as a direct charge.

Analysis of Response

SLOCOG agrees with the finding and recommendation. The ICAP was recalculated to exclude the direct project costs.

Finding 3

In our sampling of direct project cost testing, we found one instance of improper travel cost reimbursement. The travel costs were reimbursed above the approved state Department of Personnel Administration (DPA) rate. In addition, the costs were incurred by various individuals but reimbursed to one employee, and the travel costs were unallowable. Specifically, the Executive Director was reimbursed \$28.80 for each of seven meals that were purchased for himself, four non-SLOCOG employees (including two board members), and two other SLOCOG employees. The travel purpose was described as a business meeting to discuss Smart Growth issues, certain concerns, and conceptual issues that would be discussed at the following day's public information meeting.

2 CFR 225, Appendix B #43 states in part, that travel costs are the expenses for transportation, lodging, subsistence, and related items incurred by employees who are in travel status on official business of the governmental unit. It further states that travel costs of officials covered by Appendix B #19 are allowable with the prior approval of an awarding agency when they are specifically related to Federal awards. Appendix B #19 states, in part, that expenses of members of a local governmental board are unallowable.

Additionally, Article II, Section 2 (on page 5 of 12) of the Master Fund Transfer Agreement numbered 74A0138 between the Department and SLOCOG states, in part, that travel expenses and per diem rates are not to exceed the rate specified by the DPA, which is \$18 for dinner. Further, the SLOCOG travel policy that was in effect at the time the costs were incurred allowed the maximum reimbursement of \$24, including gratuities, for dinner.

Although SLOCOG's local travel policy allows for reimbursement of meals for non-SLOCOG employees when the Executive Director, acting as an official representative, hosts a SLOCOG business meeting if the meeting extends over a usual mealtime, those costs are not allowed under 2 CFR 225, Appendix B #43 (or #19 for the two board members, without prior approval). Further, Appendix B #27 restricts the costs of meals to meetings where the primary purpose is the dissemination of technical information. It does not appear that the primary purpose of the business meeting hosted by the Executive Director was the dissemination of technical information, but rather general discussion and planning meeting. Therefore, the costs of the four non-SLOCOG employees should not be allowed and the cost for the two other SLOCOG employees should have been recovered by their own travel claims. Further, the amount reimbursed for the Executive Director's own meal should not have exceeded the \$18 allowed DPA rate.

SLOCOG's OWP identifies a specific task code (0500) to which travel costs are to be assigned and paid for with local funding. However, the above-mentioned costs were coded directly to project-related work element 9200.

Recommendation

We recommend that SLOCOG establish procedures to ensure that only travel costs incurred by SLOCOG employees are reimbursed at or under the State rate, or excluded from the total allowable costs when billing the Department.

SLOCOG's Response

SLOCOG created a work element for all travel, meetings and meals. These costs will be excluded from the total allowable costs in future billings to the Department.

Analysis of Response

SLOCOG agrees with the finding and recommendation.

Finding 4

Through our testing of labor charges, we found that SLOCOG allocates the costs for paid time off (PTO) and fringe benefits using inappropriate bases. Specifically, PTO is allocated based on budgeted figures rather than actual activity, and fringe benefits are allocated based on total earnings in a particular work element rather than individual employee earnings.

2 CFR 225, Appendix B #8(d)(2) states in part, that the cost of regular compensation paid to employees during periods of authorized absences are allowable if the costs are equitably allocated to all related activities. Additionally, #8(d)(5) states in part, that the cost of fringe benefits shall be allocated to Federal awards and all other activities in a manner consistent with the pattern of benefits attributable to the individuals or groups of employees whose salaries and wages are chargeable to such Federal awards and other activities. Further, #8(h)(5)(e) states in part, that budget estimates do not qualify as support for charges to Federal awards.

Because budgeted figures do not reflect actual activity, allocating costs using a budgeted base will not produce accurate information. Also, since not all employees earn the same fringe benefits, allocating their costs based on the total earnings in a work element instead of to the individual earnings, will lead to inaccurate charging of costs. For example, we noted that the "cash-out" benefit was allocated to work elements that had no earnings of an employee eligible for the benefit. We also noted examples where work elements were undercharged by half or overcharged as much as 2 ½ times the amount that would have been allocated had the base been individual earnings.

Recommendation

We recommend SLOCOG develop procedures that will ensure an equitable allocation of PTO and fringe benefit costs. Additionally, since a portion of PTO has already been billed directly, we further recommend that the directly billed PTO costs are appropriately offset in SLOCOG's next billing to the Department.

SLOCOG's Response

In separate electronic mail and telephone correspondence, SLOCOG staff clarified that it has the ability to spread fringe benefit costs to individual employees and PTO would be treated as indirect costs and spread through the indirect cost allocation plan.

Analysis of Response

SLOCOG agrees with the finding and recommendation, and subsequently revised its 2007/08 ICAP to adjust for the change in treatment for PTO costs.

Finding 5

The rate used to allocate indirect costs to individual work elements in the OWP program budget does not agree to the indirect cost rate proposed in the ICAP. This error was noticed in the initially submitted ICAP where the proposed ICAP rate was 36.73%, but the rate used in the OWP program budget was 31.68%. The variance was not corrected in the revised ICAP where the proposed indirect rate is 51.99%, but the rate used in the OWP is 52.73% for the majority of work elements.

The discrepancy is caused by a number of inconsistencies between the costs listed in the OWP program budget and the costs identified in the ICAP program budget:

- Direct staff costs are listed as \$1,428,809 in the OWP versus \$1,463,810 in the ICAP;
- Indirect services and supplies are \$265,247 in the OWP versus \$241,147 in the ICAP;
- The carry-forward amount is \$61,291 in the OWP versus \$36,649 in the ICAP.
- The ICAP excludes \$5,000 of unallowable indirect salary, which is spread to various work elements in the OWP.

Section 6 of the Metropolitan Planning Organization OWP Guidance states in part, that the Work Elements should contain a detailed fund source, type and amounts for each work element. Due to the inconsistencies between the ICAP budget and the OWP program budget, the amount of funds needed for each work element is misrepresented in the OWP.

A similar finding was identified in our prior audit report dated November 14, 2005.

Recommendation

We recommend that in the future, SLOCOG reconcile the indirect costs identified in the ICAP and OWP program budget. We further recommend that indirect costs be correctly represented in the fiscal year 2008/09 the OWP.

SLOCOG's Response

Since the finding was identified in the audit report dated November 14, 2005, carry-forward indirect costs have been included in the first approved amendment in order to assure that the approved indirect cost carry-forward amount was included. SLOCOG will include the carry-forward indirect costs in the first amendment upon approval of the indirect cost rate, following input from A&I.

Analysis of Response

SLOCOG agrees with the finding and recommendation, and should take action to include the proposed carry-forward amount in the initial OWP.

Finding 6

During our review of labor costs, we found that the Executive Director's timesheet was not approved. Additionally, during our review of direct costs, we found that his travel claim was approved by a subordinate.

49 CFR 18.20(b)(3) states that effective control and accountability must be maintained for all grant and subgrant cash, real and personal property, and other assets. Grantees and subgrantees must

adequately safeguard all such property and must assure that it is used solely for authorized purposes.

Having no secondary signature to acknowledge the review and approval of the Executive Director's timesheets, there is a risk that potential time reporting errors may go undetected. Additionally, because the Executive Director is in a position to exert direct and significant influence over his staff, having the travel claim approved by a subordinate is an ineffective control measure.

Recommendation

We recommend that the SLOCOG Board designate a Board member(s) to sign the Executive Director's timesheets and travel claims to ensure that the his time records and travel claims undergo the same review and approval process as other SLOCOG personnel.

SLOCOG's Response

The Executive Director is a contract employee who is exempt from submitting a time card for payroll purposes. His completing of a time card is strictly for allocation of hours to work elements and his time is not tracked for approval purposes. All time cards are reviewed by the Administrative Services Officer and Accountant. Additionally, the SLOCOG board members are not directly familiar with the 50-plus charge codes. SLOCOG believes asking a designee to sign the Executive Director's time card is overly bureaucratic.

Travel is approved by the Board in the budget. The Executive Director's travel claim is approved by one of the three Division Chiefs. It is reviewed and prepared by the Administrative Secretary with final review by the Accountant. If there are any questions or discrepancies, they are addressed during these many reviews. If inappropriate influence is executed by the Executive Director, SLOCOG employees have rights provided under Article 9 of the Personnel Policies and Procedures Manual (Grievances).

SLOCOG states that it is distressing and frustrating to be notified of an additional and immaterial audit finding with fewer than 30 days remaining in the fiscal year. SLOCOG procedures have been in place since its inception in 1993, and controls are tested yearly during the financial audit.

In addition, the Executive Director certifies that requests for reimbursement are consistent with the terms of the Master Fund Transfer Agreement, work is completed in accordance with the approved Overall Work Program and state and federal matching requirements have been met.

Analysis of Response

SLOCOG disagrees with the finding and recommendation.

Although the Executive Director may be an exempt employee, we disagree that he is not required to submit a time card for payroll purposes. Any compensation for personnel services funded by federal awards must be adequately documented and supported. Since the OWP serves as the basis for operation and is approved by the Board, the Board should be familiar with the work elements (charge codes).

While SLOCOG indicates that questions or discrepancies related to the Executive Director's travel would be addressed during any of the three review stages, unallowable travel charges can go undetected, as noted in Finding 3 above.

We appreciate SLOCOG's frustration with the delay in notification regarding this finding. However,

in accordance with the generally accepted government auditing standards, audit staff receive supervision, including review of audit work. It was during the review phase that the significance of this finding was identified. SLOCOG's response did not provide any additional documentation to change the finding and recommendation of the audit.

This report is intended solely for the information of SLOCOG, Department Management, the California Transportation Commission and the Federal Highway Administration (FHWA). However, this report is a matter of public record and its distribution is not limited.

Please retain the approved Indirect Cost Allocation Plan for your files. Copies were sent to the Department's District 05, the Department's Division of Accounting and the FHWA. If you have any questions, please contact Barbara Nolan, Auditor, at 916-323-7880, or Amada Maenpaa, Audit Supervisor, at 916-323-7868.



MARYANN CAMPBELL-SMITH
Chief External Audits

c: Mike Giuliano, District 5
Gary Buckhammer, HQ Accounting
Brenda Bryant, FHWA
Andrew Knapp, HQ Planning
Erin Burns, ORIP Transportation Planner for District 5

VI. INDIRECT COST PLAN

2007/2008 SAN LUIS OBISPO COUNCIL OF GOVERNMENTS (SLOCOG) INDIRECT COST PLAN Revised 4/2/08

The indirect cost rate contained herein is for use on grants, contracts, and other agreements with the Federal Government and California Department of Transportation (Caltrans), subject to the conditions in Section II. This plan was prepared by SLOCOG and approved by Caltrans

Section I: Rates

Rate Type	Effective Period	Rate*	Applicable To
Fixed with carry-forward	7-1-2007 through 6-30-2008	51.99%	All Programs

*Base: Total Direct Salaries and Wages plus fringe benefits (excluding paid time off)

Section II: General Provisions

A. Limitations:

The rates in this Agreement are subject to any statutory or administrative limitations and apply to a given grant, contract, or other agreement only to the extent that funds are available. Acceptance of the rates is subject to the following conditions: (1) Only costs incurred by the organization were included in its indirect cost pool as finally accepted; such costs are legal obligations of the organization and are allowable under the governing cost principles; (2) The same costs that have been treated as indirect costs are not claimed as direct costs; (3) Similar types of costs have been accorded consistent treatment; (4) The information provided by the organization which was used to establish the rates is not later found to be materially incomplete or inaccurate by the Federal Government or Caltrans. In such situations the rate(s) would be subject to renegotiation at the discretion of the Federal Government or Caltrans; (5) Prior actual costs used in the calculation of the approved rate are contained in the grantees' Single Audit, which was prepared in accordance with OMB Circular A-133. If a Single Audit is not required to be performed, then audited financial statements should be used to support the prior actual costs; and (6) The estimated costs used in the calculation of the approved rate are from the grantee's approved budget in effect at the time of approval of this plan.

B. Accounting Changes:

This Agreement is based on the accounting system purported by the organization to be in effect during the Agreement period. Changes to the method of accounting for costs, which affect the amount of reimbursement resulting from the use of this Agreement, require prior approval of the authorized representative of the cognizant agency. Such changes include, but are not limited to, changes in the charging of a particular type of cost from indirect to direct. Failure to obtain approval may result in cost disallowances.

C. Fixed Rate with Carry Forward:

The fixed rate used in this Agreement is based on an estimate of the costs for the period covered by the rate. When the actual costs for this period are determined – either by the grantee's Single Audit or if a Single Audit is not required, then by the grantee's audited financial statements – any differences between the application of the fixed rate and actual costs will result in an over or under recovery of costs. The over or under recovery will be carried forward, as an adjustment to the calculation of the indirect cost rate, to the second fiscal year subsequent to the fiscal year covered by this plan.

D. Audit Adjustments: Immaterial adjustments resulting from the audit of information contained in this plan shall be compensated for in the subsequent indirect cost plan approved after the date of the audit adjustment. Material audit adjustments will require reimbursement from the grantee.

E. Use by Other Federal Agencies: Authority to approve this agreement by Caltrans has been delegated by the Federal Highway Administration, California Division. The purpose of this approval is to permit subject local government to bill indirect costs to Title 23 funded projects administered by the Federal Department of Transportation (DOT). This approval does not apply to any grants, contracts, projects, or programs for which DOT is not the cognizant Federal agency.

The approval will also be used by Caltrans in State-only funded projects.

F. Other:

If any Federal contract, grant, or other agreement is reimbursing indirect costs by a means other than the approved rate(s) in the Agreement, the organization should (1) credit such costs to the affected programs, and (2) apply the approved rate(s) to the appropriate base to identify the proper amount of indirect costs allocable to these programs.

G. Rate Calculation:

FY 2007/2008 Budgeted Indirect Costs:	\$ 724,326
Carry Forward from FY 2005/06	36,649
Estimated (Adjusted) FY 2007/2008 Indirect Costs	760,975
FY 2007/2008 Budgeted Direct Salaries plus fringe benefits (excluding paid time off):	1,463,810
Fiscal Year 2007/2008 Indirect Cost Rate	51.99%

CERTIFICATION OF INDIRECT COSTS:

This is to certify that I have reviewed the indirect cost rate proposal submitted herewith and to the best of my knowledge and belief:

(1) All costs included in this proposal to establish billing or final indirect costs rates for fiscal year 2007/2008 (July 1, 2007 to June 30, 2008) are allowable in accordance with the requirements of the Federal and State award(s) to which they apply and OMB Circular A-87, "Cost Principles for State, Local, and Indian Tribal Governments." Unallowable costs have been adjusted for in allocating costs as indicated in the cost allocation plan.

(2) All costs included in this proposal are properly allocable to Federal and State awards on the basis of a beneficial or causal relationship between the expenses incurred and the agreements to which they are allocated in accordance with applicable requirements. Further, the same costs that have been treated, as indirect costs have not been claimed as direct costs. Similar types of costs have been accounted for consistently and the Federal Government and Caltrans will be notified of any accounting changes that would affect the fixed rate.

I declare that the foregoing is true and correct.

Governmental Unit: San Luis Obispo Council of Governments

Ronald L. De Carli
Signature

Approved and Submitted by
Name: Ronald L. De Carli

Title: Executive Director

Date of Execution: 6/3/2008

Sue Hall
Signature

Prepared by:
Name: Sue Hall

Title: Administrative Services Officer

Phone: (805) 781-4255

INDIRECT COST RATE APPROVAL

The State DOT has reviewed this indirect cost plan and hereby approves the plan.

MaryAnn Campbell-Smith
Signature
Reviewed and approved by:
(Name of Audit Manager) MaryAnn Campbell-Smith

Title: Chief, External Audits

Date: 6/17/08

Phone Number 916.323.7105

Barbara Nolan
Signature
Reviewed and approved by:
(Name of Auditor) Barbara Nolan

Title: Auditor

Date: 6/4/08

Phone Number 916.323.7880

SAN LUIS OBISPO COUNCIL OF GOVERNMENTS
2007/2008 INDIRECT COST RATE CALCULATION - Amended 4/2/08

Description	Direct Expenses	Indirect Expenses	Unallowable Expenses	Total Expenses	Justification Detail
Salaries	1,483,810	483,179	5,000	1,951,989	Unallowable for Cash Out
TOTAL SALARIES	1,483,810	483,179	5,000	1,951,989	
Services and Supplies					
Janitorial	350	2,500	0	2,850	Rideshare Janitorial direct expense \$350
Liability Insurance	1,000	8,000	0	9,000	Rideshare Liability Insurance direct expense \$1,000
Memberships	1,000	8,888	5,102	15,000	CALCOG (\$4,102) and CTA (\$1k) Membership Dues unallowable; Rideshare direct expense \$1,000
Payroll Services	1,000	7,500	0	8,500	Rideshare Payroll Services direct expense \$1,000
Office Expenses/Computer Supplies	3,000	18,500	0	22,500	Rideshare Office Expense/Computer Supplies (\$3k), Social Marketing Projects for TripLink Bus Trip Planner (\$5,800) and Regional Ride Guide Map (\$7,300)
Computer Peripherals and Supplies (software)	2,700	1,000	0	3,700	OIS Software (\$1,500), TransCAD (\$1,000), and Rideshare (\$200) direct
Postage/Delivery	3,500	2,500	0	6,000	\$2,500 Direct for SLOCOG, \$1,000 Direct for Rideshare
Copying Costs	4,800	8,000	0	12,800	\$3,500 Direct for SLOCOG, \$1,300 Direct for Rideshare
Co. Services (Legal/Admin/Auditor)	28,585	10,435	0	37,000	\$8,850 Direct for TOD Admin by County, \$6,000 Direct for Rideshare, \$13,715 Direct for Legal; \$4,084 Indirect for Auditor Controller, \$6,351 Indirect for Legal
Public Notices/Special Advertising	5,500	0	0	5,500	\$1,500 Direct for SLOCOG
Office Lease	13,000	152,200	0	165,200	\$13,000 Direct for Rideshare; \$152,200 Indirect for SLOCOG
Special Dept. Expenses	35,000	0	3,000	38,000	\$35,000 Direct for Rideshare; \$3,000 Unallowable for SLOCOG
Call Box Program	220,085	0	0	220,085	All Direct
Travel	4,500	0	28,000	30,500	SLOCOG
Classes/Seminars	2,500	5,714	0	8,214	\$1,000 Direct for SLOCOG; \$1,500 Direct for Rideshare; \$2,000 Indirect for SLOCOG
Communications	14,500	14,800	0	28,400	SLOCOG
Minor Equipment (formerly Fixed Assets and Significant Value Purchases)	0	0	17,700	17,700	Unallowable for minor equipment
Regional Energy Planning Workshop	0	0	2,000	2,000	Unallowable
Action for Healthy Communities	0	0	2,500	2,500	Unallowable
Census Transportation Planning Products (CTPP)	2,180	0	0	2,180	Letter from Caltrans Deputy Director of Planning and Modal Programs recommending PL contribution for CTPP Pooled Fund
Phase 1 Community 2050 Outreach, Transportation, Meeting Facilities, Steering Committee, Meeting Supplies, Rental of EcoInteractive	500	0	0	500	All Direct
Phase 2 Community 2050 Outreach, Transportation, Meeting Facilities, Steering Committee, Meeting Supplies, Rental of EcoInteractive	89,803	0	0	89,803	All Direct
Highway 1 Community Gateway Sign	397,000	0	0	397,000	All Direct
Highway 1 Byway and Interpretive Signs	408,000	0	0	408,000	All Direct
Office Building Reserve	0	0	142,000	142,000	Unallowable for capital
Regional Rideshare Marketing - Advertising Services	202,800	0	0	202,800	All Direct
Guaranteed Ride Home	3,000	0	0	3,000	All Direct
Commute Plus/Luck Bucks program	0	0	0	0	Moved to Special Departmental
Funding Workshop	2,000	0	0	2,000	All Direct
SLO Region's Agricultural Workers' Transportation Grant	456,997	0	0	456,997	All Direct
Prop 1 B SLO Train Station Improvements	60,000	0	0	60,000	All Direct
OMB A-87 (Stipends/Other)	0	0	17,500	17,500	Unallowable
Contingency	0	0	10,000	10,000	Unallowable
TOTAL SERVICES/SUPPLIES	1,939,260	241,147	225,802	2,406,209	
TOTAL PROF. SERVICES	833,018	0	0	833,018	
Building Development Fund	0	0	100,000	100,000	
TOTAL BUILDING FUND	0	0	100,000	100,000	
TOTAL RTPA EXPENSES	4,236,088	724,326	330,802	5,291,216	
INDIRECT COST RATE CALCULATION					
INDIRECT COSTS (UNADJUSTED) =			\$724,326		
CARRY FORWARD (SEE ATTACHED) =			\$36,849		
ADJUSTED INDIRECT COSTS (AIC) =			\$760,975		
DIRECT SALARIES (DS) =			\$1,463,810		
AIC/DS = 2007/2008 INDIRECT COST RATE:			51.99%		

Note: Payroll liability (5%) deducted from salary expenses and included as unallowable expense

2007/2008 INDIRECT COST PLAN

CARRY-FORWARD COMPUTATION

AMENDED 4/2/08

FISCAL YEAR	2001/2002	2002/2003	2003/2004	2004/2005	2005/2006	2006/2007	2007/2008
NEGOTIATED FIXED RATE	40.76%	50.49%	39.44%	45.28%	43.54%	48.96%	51.99%
ESTIMATED COSTS FROM BUDGET							
Base: Salaries + Benefits	846,460	924,269	1,006,510	1,017,283	1,090,284	1,250,620	1,463,810
Indirect Costs	269,140	269,431	316,065	359,617	393,656	462,957	724,326
Carry-forward (+ or -)	75,879	197,215	80,873	100,985	81,084	149,319	36,649
Adjusted Indirect Costs	345,019	466,646	396,938	460,602	474,740	612,276	760,975
ACTUAL COSTS FROM SINGLE AUDIT							
Base: Salaries + Benefits	752,126	871,191	904,663	929,193	1,093,609		
Indirect Costs	311,561	343,634	357,010	469,073	431,722		
Carry-forward (+ or -)	75,879	197,215	80,873	100,985	81,084		
Adjusted Indirect Costs	387,440	540,849	437,883	570,058	512,806		
CARRY-FORWARD COMPUTATION							
Actual Recovery							
(Fixed Rate x Actual Base):							
.4076 X 752,126	306,567						
.5049x871,191		439,864					
.3944x904,663			356,799				
.4528x929,193				420,739			
.4354x1,093,609					476,157		
Should have recovered	387,440	540,849	437,883	570,058	512,806		
(OVER)/UNDER-RECOVERED	80,873	100,985	81,084	149,319	36,649	0	0

Attachment I

Ronald L. DeCarli, Executive Director
1150 Osos Street, Suite 202
San Luis Obispo, CA 93401

Dear Mr. DeCarli:

Re: San Luis Obispo Council of Governments
Audit of Indirect Cost Allocation Plan for FY 2007/08
File No: P1190-0656

We have audited the San Luis Obispo Council of Governments' (SLOCOG) Indirect Cost Allocation Plan (ICAP) for the fiscal year ended June 30, 2008 to determine whether the ICAP is presented in accordance with Office of Management and Budget (OMB) Circular A-87 and the Department of Transportation's Local Programs Procedures (LPP) 04-10. SLOCOG management is responsible for the fair presentation of the ICAP. SLOCOG proposed an indirect cost rate of 32.00% of total direct salaries and wages plus fringe benefits.

Our audit was conducted in accordance with the Standards for Performance Audits set forth in the *Government Auditing Standards* issued by the Comptroller General of the United States of America. The audit was less in scope than an audit performed for the purpose of expressing an opinion on the financial statements of the SLOCOG. Therefore, we did not audit and are not expressing an opinion on SLOCOG's financial statements.

The standards require that we plan and perform the audit to obtain reasonable assurance about whether the data and records reviewed are free of material misstatement, as well as material noncompliance with fiscal provisions relative to the ICAP. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the data and records reviewed. An audit also includes assessing the accounting principles used and significant estimates made by SLOCOG, as well as evaluating the overall presentation.

The accompanying ICAP was prepared on a basis of accounting practices prescribed in the OMB Circular A-87 and the Department of Transportation's (Department) LPP 04-10, and is not intended to present the results of operations of SLOCOG in conformity with generally accepted accounting principles.

The scope of the audit was limited to select financial and compliance activities. The audit consisted of a recalculation of the ICAP, a comparison of the ICAP to single audit report for the fiscal year ended June 30, 2006, and inquiries of SLOCOG personnel. The audit also included tests of individual accounts to the general ledger and supporting documentation to assess allowability, allocability and reasonableness of costs based on a risk assessment and an assessment of the internal control system as related to the ICAP as of September 13, 2007. Financial management system changes subsequent to this date were not tested and, accordingly, our conclusion does not pertain to changes arising after this date. We believe that our audit provides a reasonable basis for our conclusion.

Because of inherent limitations in any financial management system, misstatements due to error or fraud may occur and not be detected. Also, projections of any evaluation of the financial management system to future periods are subject to the risk that the financial management system may become inadequate because of changes in conditions, or that the degree of compliance with the policies and procedures may deteriorate.

Our findings and recommendations take into consideration SLOCOG's response dated _____ to our October 24, 2007 draft findings. Our findings and recommendations, a summary of SLOCOG's response and our analysis of the response are detailed below. See Attachment I for a copy of SLOCOG's response.

AUDIT RESULTS

Based on audit work performed, SLOCOG's ICAP for the fiscal year ended June 30, 2008 is presented in accordance with OMB Circular A-87 and LPP 04-10. The approved indirect cost rate is 32.00% of total direct salaries and wages, plus fringe benefits. The approval is based on the understanding that a carry-forward provision applies and no adjustment will be made to previously approved rates.

Audit Findings

Finding 1

SLOCOG does not segregate unallowable indirect costs from allowable indirect costs. We identified three instances where unallowable costs were included in the same accounts as other allowable costs. The specific instances and the relevant citations are listed below:

- a. Membership fee for an organization substantially engaged in lobbying (CALCOG) is unallowed per OMB A-87, Attachment B, #28d;
- b. Coffee for office meetings is an unallowable good for personal use of the governmental unit's employees per OMB A-87, Attachment B, #20. Additionally, the cost of meals in connection with meetings is allowable only if the primary purpose of the meeting is the dissemination of technical information, per OMB A-87, Attachment B, #27.;
- c. Stipends for Board members are unallowable governmental expenses per OMB A-87, Attachment B, #19(a)(2).

Title 49 of the Code of Federal Regulations (49 CFR), Part 18.20(b)(1) requires the accurate, current and complete disclosure of financial results of activities. Including unallowable costs in the same accounts as other allowable costs increases the risk of including unallowable costs in the indirect

pool and inaccurate reporting, and will improperly inflate the indirect cost rate.

Recommendation

We recommend that SLOCOG establish procedures that will ensure unallowable costs are segregated from other allowable costs and to ensure that unallowed costs are excluded from the indirect pool.

SLOCOG's Response

[REDACTED]

Analysis of Response

Finding 2

We found that SLOCOG included direct project costs in the indirect pool. Specifically, accounting services costs (\$6,850) directly attributable to the Transportation Development Act (TDA) administration program were budgeted in the indirect pool. Additionally, costs directly attributable to the Rideshare program were budgeted in the indirect pool. The costs include office space (\$13,000), janitorial expenses (\$325), and computer supplies (\$3,000). Our testing of indirect costs also showed that a wireless router (\$107.74) purchased specifically for the Rideshare program was coded as indirect.

OMB A-87, Attachment A, section E1 states that direct costs are those that can be identified specifically with a particular final cost objective. Attachment E, section A1 indicates that after direct costs have been determined and assigned directly to Federal awards and other activities as appropriate, indirect costs are those remaining to be allocated to benefited cost objectives. Including direct costs in the indirect cost pool will improperly inflate the indirect cost rate.

Recommendation

We recommend that SLOCOG recalculate its 2008 ICAP so that direct project costs are excluded from the indirect cost pool. We further recommend that SLOCOG establish procedures that will ensure direct costs are segregated from indirect costs and to ensure that direct costs are excluded from the indirect pool.

SLOCOG's Response

[REDACTED]

Analysis of Response

Finding 3

In our sampling of direct project cost testing, we found one instance where travel costs were reimbursed above the approved rate, and that the majority of the same costs were incurred by individuals other than the employee to whom reimbursement was made. Specifically, the Executive Director was reimbursed \$28.80 for each of seven meals that were purchased for himself, four non-SLOCOG employees (including two board members) and two other SLOCOG employees during what was described as a business meeting to discuss Smart Growth issues, certain concerns and conceptual issues that would be discussed at the following day's public information meeting.

OMB A-87, Attachment B #43 states in part, that travel costs are the expenses for transportation, lodging, subsistence, and related items incurred by employees who are in travel status on official business of the governmental unit. It further states that travel costs of officials covered by Attachment B #19 are allowable with the prior approval of an awarding agency when they are specifically related to Federal awards. Attachment B #19 states, in part, that expenses of members of a local governmental board are unallowable.

Additionally, Article II, Section 2 of the Master Fund Transfer Agreement numbered 74A0138 between the Department and SLOCOG states, in part, that travel expenses and per diem rates are not to exceed the rate specified by the State of California Department of Personnel Administration, which is \$18 for dinner. Further, the SLOCOG travel policy that was in effect at the time the costs were incurred allowed the maximum reimbursement of \$24, including gratuities, for dinner.

Although SLOCOG's local travel policy allows for reimbursement of meals for non-SLOCOG employees when the Executive Director, acting as an official representative, hosts a SLOCOG business meeting if the meeting extends over a usual mealtime, those costs are not allowed under OMB A-87 Attachment B #43 (or #19 for the two board members, without prior approval). Further, Attachment B #27 restricts the costs of meals to meetings where the primary purpose is the dissemination of technical information. It does not appear that the primary purpose of the business meeting hosted by the Executive Director was the dissemination of technical information, but rather general discussion and planning meeting. Therefore, the costs of the four non-SLOCOG employees should not be allowed and the cost for the two other SLOCOG employees should have been recovered by their own travel claims. Further, the amount reimbursed for the Executive Director's own meal should not have exceeded the \$18 allowed State rate.

SLOCOG's OWP identifies a specific task code (0500) to which travel costs are to be assigned and paid for with local funding. However, the above-mentioned costs were coded directly to project-related work element 9200.

Recommendation

We recommend that SLOCOG establish procedures to ensure that only travel costs incurred by SLOCOG employees are reimbursed at or under the State rate, or excluded from the total allowable costs when billing the Department.

SLOCOG's Response

[REDACTED]

Analysis of Response

Finding 4

Through our testing of labor charges, we found that SLOCOG allocates the costs for paid time off (PTO) and fringe benefits using inappropriate bases. Specifically, PTO is allocated based on budgeted figures rather than actual activity, and fringe benefits are allocated based on total earnings in a particular work element rather than individual employee earnings.

OMB A-87 Attachment B #8(d)(2) states in part, that the cost of regular compensation paid to employees during periods of authorized absences are allowable if the costs are equitably allocated to all related activities. Additionally, #8(d)(5) states in part, that the cost of fringe benefits shall be allocated to Federal awards and all other activities in a manner consistent with the pattern of benefits attributable to the individuals or groups of employees whose salaries and wages are chargeable to such Federal awards and other activities. Further, #8(h)(5)(e) states in part, that budget estimates do not qualify as support for charges to Federal awards.

Because budgeted figures do not reflect actual activity, allocating costs using a budgeted base will not produce accurate information. Also, since not all employees earn the same fringe benefits, allocating their costs based on the total earnings in a work element instead of to the individual earnings, will lead to inaccurate charging of costs. For example, we noted that the "cash-out" benefit was allocated to work elements that had no earnings of an employee eligible for the benefit. We also noted examples where work elements were undercharged by half or overcharged as much as 2 ½ times the amount that would have been allocated had the base been individual earnings.

Recommendation

We recommend SLOCOG develop procedures that will ensure an equitable allocation of PTO and fringe benefit costs.

SLOCOG's Response

SLOCOG is working with Caltrans Audits and Investigations and internally to develop an agreed upon method for an equitable allocation of PTO.

Analysis of Response

Finding 5

The rate used to allocate indirect costs to individual work elements in the OWP program budget does not agree to the indirect cost rate proposed in the ICAP. The discrepancy is caused by a number of inconsistencies between the costs listed in the ICAP and the costs identified in the OWP program budget. First, ICAP indirect cost pool includes \$26,000 budgeted for travel, but it is excluded entirely from the OWP costs because SLOCOG intends to utilize local funding to cover travel costs. Second, the ICAP rate includes the 2006 carry-forward amount (initially calculated at \$61,291), which is not identified at all in the OWP program budget. Third, the ICAP excludes \$5,000 of indirect salary from its indirect pool, but the cost is allocated to work elements in the OWP program budget. Fourth, the indirect services and supplies (excluding travel) listed in the ICAP is \$274,927, but in the OWP program budget indirect services and supplies (which excludes travel) is \$274,483.

Section 6 of the Metropolitan Planning Organization OWP Guidance states, in part, that the Work Elements should contain a detailed fund source, type and amounts for each work element. Due to the inconsistencies between the ICAP budget and the OWP program budget, the amount of funds

needed for each work element is misrepresented in the OWP.

A similar finding such as this was identified in our prior audit report dated November 14, 2005.

Recommendation

We recommend that SLOCOG reconcile the indirect costs identified in the ICAP and OWP program budget. We further recommend that the OWP be revised so that the indirect costs are correctly represented.

SLOCOG's Response

SLOCOG's response was submitted in the audit report dated November 14, 2005. SLOCOG stated that the indirect costs were not included in the OWP approved program budget. It was also noted that the approved indirect cost program budget was included. SLOCOG also stated that the indirect costs were included in the OWP approved program budget. SLOCOG also stated that the indirect costs were included in the OWP approved program budget. SLOCOG also stated that the indirect costs were included in the OWP approved program budget.

Analysis of Response

This report is intended solely for the information of SLOCOG, Department Management, the California Transportation Commission and the Federal Highway Administration (FHWA). However, this report is a matter of public record and its distribution is not limited.

Please retain the approved Indirect Cost Allocation Plan for your files. Copies were sent to the Department's District 05, the Department's Division of Accounting and the FHWA. If you have any questions, please contact Barbara Nolan, Auditor, at 916-323-7880.

MARYANN CAMPBELL-SMITH
Chief External Audits

cc: Mike Giuliano, District 5
Gary Buckhammer, HQ Accounting
Brenda Bryant, FHWA
Andrew Knapp, HQ Planning

Finding 6

During our review of labor costs, we found that the Executive Director's timesheet was not approved. Additionally, during our review of direct costs, we found that his travel claim was approved by a subordinate.

49 CFR 18.20(b)(3) states that effective control and accountability must be maintained for all grant and subgrant cash, real and personal property, and other assets. Grantees and subgrantees must adequately safeguard all such property and must assure that it is used solely for authorized purposes.

Having no secondary signature to acknowledge the review and approval of the Executive Director's timesheets, there is a risk that potential time reporting errors may go undetected. Additionally, because the Executive Director is in a position to exert direct and significant influence over his staff, having the travel claim approved by a subordinate is an ineffective control measure.

Recommendation

We recommend that the SLOCOG Board designate a Board member(s) to sign the Executive Director's timesheets and travel claims to ensure that the his time records and travel claims undergo the same review and approval process as other SLOCOG personnel.

SLOCOG's Response

Approval of Time Card: The Executive Director is a contract employee who is "exempt" and not required to submit a weekly timecard for payroll purposes. The Director is completing a time card strictly for hours' allocation to work elements. He does not track his time for approval purposes. All time cards are reviewed by the Administrative Services Officer and Accountant. In addition, SLOCOG board members are not directly familiar with the 50 plus charge codes and we believe asking a designee to sign the Executive Director's timecard is overly beauracritic.

Approval of Travel Claim: Travel is approved by the Board in the budget. The Executive Director's travel claim is approved by one of the three Division Chiefs; it is reviewed and prepared by the Administrative Secretary; the final review is performed by the Accountant. If there are any questions or discrepancies, they are addressed during these many reviews. If inappropriate influence is executed by the Executive Director, SLOCOG employees have the rights provided under Article 9, of the Personnel Policies and Procedures Manual (Grievances).

It is distressing and frustrating to be receiving notification of additional audit findings that are not material with less than 30 days remaining in the fiscal year. SLOCOG procedures have been in place since the inception of an independent SLOCOG (1993). SLOCOG controls are tested each year during the fiscal year end financial audit.

In addition, the Executive Director certifies that requests for reimbursement are consistent with the terms of the Master Fund Transfer Agreement, work is completed in accordance with the approved Overall Work Program and state and federal matching requirements have been met.